

Illustration of the 3-Step Approach to Balance Sheet Reconciliation

(figures used for illustrative purpose only)

Step 1

Under Step 1, an AI must use its balance sheet in its published financial statements based on the accounting scope of consolidation (2nd column below) as a starting point and report the amount for each item in the published financial statements based on the regulatory scope of consolidation (3rd column below). If there are items in the balance sheet under the regulatory scope of consolidation that are not present in the published balance sheet, the AI must add rows to cover them in the reconciliation and report zero in the 2nd column.

(Condensed balance sheet for illustrative purpose)		Balance sheet as in published financial statements	Under regulatory scope of consolidation
(in Millions)		As at period end	As at period end
Assets			
Cash and due from banks		12,000	11,000
Interest-bearing deposits with banks		15,000	13,000
Securities		50,000	45,000
Repurchase agreements and other similar secured lending		1,000	1,000
Loans			
- Retail		255,000	251,000
- Wholesale		250,000	249,000
Investments for account of segregated fund holders		357	0
Other			
- Derivatives		20,000	20,000
- Other assets		81,180	81,180
Total assets		684,537	671,180
Liabilities			
Deposits		448,180	435,180
Insurance and investment contracts for account of segregated fund holders		357	0
Other			
- Derivatives		55,000	55,000
- Other liabilities		114,000	114,000
Provisions		5,000	5,000
Subordinated debt		10,000	10,000
Irredeemable non-cumulative preference shares		5,000	5,000
Total liabilities		637,537	624,180
Shareholders' Equity			
Equity attributable to shareholders		46,100	46,100
Non-controlling interests		900	900
Total shareholders' equity		47,000	47,000
Total liabilities and shareholders' equity		684,537	671,180

Step 2

Under Step 2, an AI must expand the balance sheet under the regulatory scope of consolidation to identify all the capital components that are reported in the Capital Disclosures Template set out in Annex 1, or the Transition Disclosures Template set out in Annex 2, as applicable. Each capital component should be given a number in the 4th column that can be used as a cross-reference as explained in Step 3. The AI is only required to expand the balance sheet to the extent necessary for all of the applicable capital components to be included (i.e. the more complex the balance sheet of the AI, the more items would need to be disclosed).

An AI should report deductions from capital as positive numbers, and additions to capital as negative numbers.

(Condensed balance sheet for illustrative purposes)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
	As at period end	As at period end	
Assets			
Cash and due from banks	12,000	11,000	
Interest-bearing deposits with banks	15,000	13,000	
Securities	50,000	45,000	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		1,000	(1)
Repurchase agreements and other similar secured lending	1,000	1,000	
Loans			
- Retail	255,000	251,000	
- Wholesale	250,000	249,000	
Investments for account of segregated fund holders	357	-	
Other			
- Derivatives	20,000	20,000	
- Other assets	81,180	81,180	
<i>of which: goodwill</i>		5,000	(2)
<i>other intangible assets</i>		5,000	(3)
<i>deferred tax assets</i>		2,000	(4)
<i>defined benefit pension fund net assets</i>		1,200	(5)
<i>significant capital investments in financial sector entities exceeding 10% threshold</i>		2,500	(6)
Total assets	684,537	671,180	
Liabilities			
Deposits	448,180	435,180	
Insurance and investment contracts for account of segregated fund holders	357	-	
Other			
- Derivatives	55,000	55,000	
- Other liabilities	114,000	114,000	
<i>of which : gains and losses due to changes in own credit risk on fair valued liabilities</i>		200	(7)
<i>deferred tax liabilities related to goodwill</i>		-	(8)
<i>deferred tax liabilities related to intangibles</i>		1,000	(9)
<i>deferred tax liabilities related to defined pension fund net assets</i>		200	(10)
<i>other deferred tax liabilities</i>		300	(11)
Impairment allowances	5,000	5,000	
<i>of which: collective impairment allowances reflected in regulatory capital</i>		500	(12)
<i>Excess of total EL amount over total eligible provisions under the IRB Approach</i>		(250)	(13)
Subordinated debt	10,000	10,000	
<i>of which: subordinated debt not eligible for inclusion in regulatory capital</i>		-	(14)
<i>subordinated debt eligible for inclusion in regulatory capital</i>		9,800	(15)

Irredeemable non-cumulative preference shares	5,000	5,000	(16)
Total liabilities	637,537	624,180	
Shareholders' Equity			
Equity attributable to shareholders	46,100	46,100	
<i>of which: paid-in share capital</i>		15,100	(17)
<i>retained earnings</i>		26,000	(18)
<i>accumulated other comprehensive income (loss), other than cash flow hedge reserves and forex unrealised gains/losses</i>		(450)	(19)
<i>cash flow hedge reserves</i>		(150)	(20)
<i>forex unrealised gains/losses</i>		100	(21)
<i>preferred shares</i>		4,500	(22)
<i>other capital instruments</i>		1,000	(23)
Non-controlling interests	900	900	(24)
<i>of which: portion eligible for inclusion in CET1 capital</i>		500	(25)
<i>portion eligible for inclusion in Tier 1 capital</i>		50	(26)
<i>portion eligible for inclusion in Tier 2 capital</i>		50	(27)
<i>portion not eligible for inclusion in regulatory capital</i>		300	(28)
Total shareholders' equity	47,000	47,000	
Total liabilities and shareholders' equity	684,537	671,180	

Step 3

Under Step 3, an AI must add a column to the Capital Disclosures Template set out in Annex 1, or to the Transition Disclosures Template set out in Annex 2, as applicable, to cross reference figures to those in the 4th column of the expanded balance sheet in Step 2. For the purpose of this illustration, the Transition Disclosures Template is used.

Extract of Transition Disclosures Template (with added column)

		Component of regulatory capital reported by bank	Amounts subject to pre-Basel III treatment	Cross- referenced* to
CET1 capital: instruments and reserves				
1	Directly issued qualifying CET1 capital instruments plus any related share premium	15,100		(17)
2	Retained earnings	26,000		(18)
3	Disclosed reserves and accumulated other comprehensive income	(500)		(19) + (20) + (21)
4	<i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>			
	<i>Public sector capital injections grandfathered until 1 January 2018</i>			
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	500		(25)
6	CET1 capital before regulatory adjustments	41,100		
CET1 capital: regulatory deductions				
7	Valuation adjustments	0		
8	Goodwill (net of associated deferred tax liability)	5,000		(2) - (8)
9	Other intangible assets (net of associated deferred tax liability)	4,000	[transition arrangement only available for MSR, if any]	(3) - (9)
10	Deferred tax assets net of deferred tax liabilities	1,700		(4) - (11)
11	Cash flow hedge reserve	(150)		(20)
12	Excess of total EL amount over total eligible provisions under the IRB approach	50	200	(13) - (29) - (30)
13	Gain-on-sale arising from securitization transactions	0		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	200	[transition arrangement only available for DVA, if any]	(7)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	200	800	[(5) - (10)] x 20%
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0		
17	Reciprocal cross-holdings in CET1 capital instruments	0		
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	200	800	(1) - (31) - (32)
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	500	2000	(6) - (33) - (34)
20	Mortgage servicing rights (amount above 10% threshold)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22	Amount exceeding the 15% threshold			
23	of which: significant investments in the common stock of financial sector entities			
24	of which: mortgage servicing rights			
25	of which: deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments applied to CET1 capital			
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0		
26b	Regulatory reserve for general banking risks	0		
26c	Securitization exposures specified in a notice given by the Monetary Authority	0		

26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0		
26e	Capital shortfall of regulated non-bank subsidiaries	0		
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0		
27	Regulatory adjustments applied to CET1 due to insufficient AT1 capital and Tier 2 capital to cover deductions	0		
28	Total regulatory adjustments to CET1 capital	11,700		
29	CET1 capital	29,400		
AT1 capital: instruments				
30	Qualifying AT1 capital instruments plus any related share premium	10,500		
31	of which: classified as equity under applicable accounting standards	5,500		(22) + (23)
32	of which: classified as liabilities under applicable accounting standards	5,000		(16)
33	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	0		
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group and eligible portion subject to phase out)	290		(26) + [(28) * 80%]
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	240		
36	AT1 capital before regulatory adjustments	10,790		
AT1 capital: regulatory adjustments				
37	Investments in own AT1 capital instruments	0		
38	Reciprocal cross-holdings in AT1 capital instruments	0		
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0		
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
41	National specific regulatory adjustments applied to AT1 capital	1,500		
41a	Portion of previous deductions applied 50:50 to core capital and supplementary capital, based on pre-Basel III treatment, which during transitional period remain subject to deduction from Tier 1 capital	1,500		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	100		(29)
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0		
iii	of which: Investments in own CET1 capital instruments	0		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	400		(31)
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	1,000		(33)
42	Regulatory adjustments applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0		
43	Total regulatory adjustments to AT1 capital	1,500		
44	AT1 capital	9,290		
45	Tier 1 capital (Tier 1 = CET1 + AT1)	38,690		
Tier 2 capital: instruments and provisions				
46	Qualifying Tier 2 capital instruments plus any related share premium	9,800		(15)
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	0		
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	50		(27)
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	0		
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	500		(12)
51	Tier 2 capital before regulatory deductions	10,350		

Tier 2 capital: regulatory deductions				
52	Investments in own Tier 2 capital instruments	0		
53	Reciprocal cross-holdings in Tier 2 capital instruments	0		
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
56	National specific regulatory adjustments	1,500		
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	0		
56b	Portion of previous deductions applied 50:50 to core capital and supplementary capital, based on pre-Basel III treatment, which during transitional period remain subject to deduction from Tier 2 capital	1,500		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	100		(30)
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0		
iii	of which: Investments in own CET1 capital instruments	0		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	400		(32)
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	1,000		(34)
57	Total regulatory deductions applied to Tier 2 capital	1,500		
58	Tier 2 capital	8,850		
59	Total capital (Total capital = Tier 1 + Tier 2)	47,540		

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

Footnote:

* Cross-referenced to Consolidated Balance Sheet in Step 2